

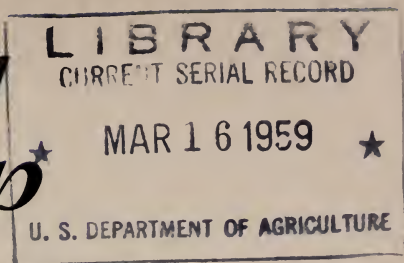
## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



A280.29  
F22Fc  
Cop. 2

# Sizing Up



## Your Cooperative

FCS Educational Circular 11  
Farmer Cooperative Service  
U. S. Department of Agriculture

**T**HE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

**JOSEPH G. KNAPP,**  
Administrator,  
Farmer Cooperative Service  
U. S. Department of Agriculture

---

## CONTENTS

|   | Page |
|---|------|
| Is there an economic need for our co-op? .....            | 1    |
| Are our co-op's membership relations satisfactory? .....  | 2    |
| Are the directors properly qualified for their job? ..... | 4    |
| Do we have a good manager? .....                          | 5    |
| Are our operating policies sound? .....                   | 5    |
| Is the financial condition satisfactory? .....            | 7    |
| Is our co-op's volume of business adequate? .....         | 8    |
| Can our co-op meet competition? .....                     | 10   |
| Are future successful operations likely? .....            | 11   |

---

This educational circular is one of a series prepared for use of members of farmer cooperatives and for educational work with rural youth.

---

**FCS Educational Circular 11**  
**(Formerly FCA Circular E-18)**

**April 1956**

## Sizing Up Your Cooperative

A FARM boy learns early in life how to tell the difference between a good and an inferior dairy cow, horse, wagon, tractor, or automobile. Experience teaches him the necessity of having good stock and implements in order to obtain a farm income.

Frequently, however, farmers are puzzled concerning the procedure to follow in appraising farmer marketing and purchasing cooperative associations. Standards for appraising cooperative associations may be used, however, just as standards are used in differentiating between a good dairy cow and a worthless one, or an efficient and an inefficient piece of machinery. The broad principles are the same. In selecting a good dairy cow, the farmer wants one that will give him the largest amount of butterfat for the consumed feed and work expended. Similarly, in the case of a tractor, he wants one that will do the work he desires with a minimum of expense, upkeep, labor, and replacements.

A farmer cooperative may be tested to determine whether the association

is a good organization for the farmer to purchase from or to market his commodities through and whether direct or indirect savings are made and services rendered which will make the members' farming operations more profitable.

### Nine Co-op Yardsticks

Nine principal factors should be taken into consideration in sizing up your farmer cooperative:

1. Is there an economic need for our co-op?
2. Are our co-op's membership relations satisfactory?
3. Are the directors properly qualified for their jobs?
4. Do we have a good manager?
5. Are our operating policies sound?
6. Is our association's financial condition satisfactory?
7. Is the co-op's volume of business satisfactory?
8. Can the co-op meet competition?
9. Are future successful operations likely?

### Is There an Economic Need for Our Co-op?

WHETHER a cooperative has been established a long time or a new one is contemplated, it is im-

portant that you as a member or prospective member ask yourself the question: Is there a need for the co-op?

NOTE: This publication was formerly Circular E-18 written by J. E. Wells, Jr. The present circular has been slightly

revised by H. H. Hulbert, Business Administration Branch, Management Services Division, Farmer Cooperative Service.

The need may arise from one or several causes. It may be the need of the farmers for increasing their net incomes by getting marketing and purchasing services at lower costs than they would otherwise pay. It may be the need to correct unsatisfactory trade practices. Or it may be the need to develop improved quality or better marketing methods. Whatever the need, it must be a real need; and one that is recognized as such by you and your fellow farmers.

There is a good reason why there must be a need for a co-op before it can hope to be successful. A cooperative must be large enough to assure that its costs will not be higher than those of competing firms. Unless the need is sufficiently apparent to the farmers, this volume may be difficult to obtain.

Adequate operating margins are essential. The margins must be large enough to permit the association to make retentions for building capital and reserves, without preventing satisfactory current net returns to the members.

### **May Attack Marketing Handicaps**

Frequently farmers have found it necessary to establish associations in order to correct unsatisfactory trade conditions or practices, such as inefficient transportation, or misrepresen-

tations of quality. Such associations are justified, even though financial operating margins may be narrow.

The same is true of associations which—through improving the processing, packaging, or quality of their product—have stimulated demand.

As examples, farmer cooperatives handling butter have been able to obtain the services of independent graders and receive certificates of quality which can be used not only as a basis for making payments to farmers, but also as a statement of quality to the consumers. Certain celery farmers found it necessary to organize a farmers' trucking service, which reduced their transportation costs and made shipping schedules more convenient and efficient. Rice farmers, through their cooperatives, have assisted in decreasing the practice of mixing varieties with different cooking qualities, and have thereby improved the product for the consumer.

Furthermore, farmers may find that the outlets for their commodities must be improved so that their farm income may be increased. This may mean improvement in selling methods, packaging, grading, advertising, and other selling operations.

A definite economic need must exist; otherwise it is doubtful if the association, whether devoted to marketing or purchasing or any other type of business service, can succeed.

## **Are Our Co-op's Membership Relations Satisfactory?**

**"MEMBERSHIP RELATIONS"** is a term used to describe the everyday relationship between you and your co-op. If this relationship is close and friendly and based upon mutual understanding, membership rela-

tions are satisfactory. If they lack this personal interest and understanding, the relationships are not strong enough to make for the best cooperative results.

The manager of a business other

than a cooperative is usually properly concerned with maintaining its own income and keeping the stockholders satisfied through dividends.

The functions of a cooperative, however, are different, and broadly speaking may be divided into two parts. The first is business administration, including financing, processing, merchandising, supervision, and credit collections. The second is membership administration, which includes the maintenance of agreeable human relations. No amount of organization and education is a substitute for sound business administration. Neither is sound business and financial administration sufficient to make a sound, healthy cooperative.

Until the members feel that the organization is their own, and take a pride in its achievements and further extension, there is danger that the association will fail. So long as a cooperative is doing a good job and experiencing smooth sailing the majority of the members may be indifferent to their responsibility. When difficulty arises, however, the members may withdraw unless they have learned to assume their share of responsibility, to stand by the association, and to bring about changes when necessary.

There are two steps in the growth of a cooperative. The first is enlisting membership in order to obtain volume. Many farmers during this stage join with the idea of "trying the association" for a while to see whether they like it. There has been no dearth of farmers' organizations which have gone no further than this stage. The second stage is more difficult than the first. It involves maintaining member interest. It is difficult because leaders

often fail to realize that, in order to maintain the interest of members, a program must be developed which gives the members something to do from time to time.

## **Ownership Strengthens the Bond**

One of the best means of strengthening membership contact is through development of a sense of ownership. It is very desirable that a member, asked if he belongs to an association, feels like saying: "I not only belong; I own a part of it." It is not unusual to hear nowadays that it is just as important for a farmer to own a part of a marketing and purchasing association as it is for him to own livestock, land, buildings, or other farming equipment.

In order to judge whether an association has satisfactory membership relations, the following tests are suggested:

A. Membership loyalty is based on understanding. Therefore, does the information given out by the management and the board of directors adequately inform the membership of the progress, status, and general program of the association?

B. Does the membership participate in the election of the board of directors and show sufficient interest to insist that the association be run satisfactorily?

C. Do the members have a definite financial stake in the association in proportion to their patronage, sufficient to keep them interested in the success of the association? Are provisions made for the member to receive his capital investment on a revolving-fund basis?

D. Is there a marketing agreement

which specifically defines the responsibility of the membership to the association and of the association to the membership?

E. Do the members patronize the association to the fullest extent?

F. Do the members actually hold the voting control of the association?

G. Does the legal set-up provide for the discontinuance of membership when the farmer ceases to patronize the association?

## **Are the Directors Properly Qualified for Their Job?**

**I**MPORTANT among your responsibilities as a co-op member is seeing that properly qualified men are elected to your board of directors. It is to these men that you delegate the responsibility of outlining the policies of your marketing or purchasing association. They should be chosen, therefore, not primarily on the basis of friendship or neighborliness—but on the basis of business judgment and ability.

It is the function of the board of directors to prescribe the policies of the association for all phases of its operations. The manager is charged with the responsibility of executing the policies prescribed, and also of comprehensively reporting to the board of directors the manner in which he has executed them. It is a definite responsibility of the board of directors to see that the policies laid down by them are carried out.

It is not within the duties of the directors to manage the details of the business. Interference by individual members of the board of directors frequently causes considerable confusion and possibly loss. Therefore this division of responsibility and action between board and manager must be followed to obtain satisfactory results.

### **Testing Board Members**

The following tests are suggested in regard to the board of directors:

A. Do the board members make it their personal responsibility to represent the interests of the members and to direct the association for its maximum welfare?

B. Do the members of the board of directors market or purchase through the association?

C. Does the board of directors feel that the members own and control the association?

D. Does the board of directors inform the members as to their responsibilities, duties, and ownership so that they may give intelligent support and constructive criticism to their organization?

E. In selecting the manager, does the board give consideration to the responsibilities involved and the training required for the position, or does it consider primarily the applicant's relationship with the directors and how cheaply his services can be obtained?

F. Does the board conservatively analyze and consider the audit and reports of the manager?

G. Do the board members spend the association's money as carefully as they would individually spend their own money?

H. Does the board of directors approve the budget of the manager and review it to see that the manager is operating under it?

I. Does the board of directors realize that the proper control of the financial operations of management is through an operating budget?

J. Are any members of the board of directors on the pay roll of the association? If so, what justification is there for this?

## **Do We Have a Good Manager?**

**T**HE manager and the employees he hires are the mainspring of your co-op. All the other parts of your cooperative may be in perfect working order, and you as a member may be supplying your share of the patronage and financing to make it go—but if the mainspring is weak, your efforts may be in vain.

The function of the manager is to see that the work of the association gets done. How well and efficiently that work is done determines whether you have a good manager or an unsatisfactory one. The following tests may be offered in sizing up your co-op's manager.

A. Is the manager active in developing satisfactory membership relations?

1. Has the manager obtained experience outside cooperative circles and developed certain habits of thought and methods which tend to ignore the membership and the place of the members in a cooperative?

2. Does the manager look upon the association as his own business, and neglect to realize that he is working for the association, which is composed of members?

B. Is the manager experienced in the particular line of business in which

the cooperative is engaged in order that he may effectively handle the business affairs of the association? Sometimes managers are selected because they are personal friends of directors or influential members, and may not have ability to carry out the business administration of the cooperative.

C. Does the manager seek the assistance and aid of the board of directors on all major problems, and does he adhere to their advice and resolutions? Some managers feel that reporting to the directors is a necessary evil rather than a responsibility. The manager may not realize that responsibility for the success of the enterprise is in the board of directors. The manager has the stewardship of the association, but he should handle its affairs in accordance with policies decided upon by the board of directors.

D. Does the manager prepare comprehensive reports concerning the status of operations?

E. Is he controlled by an operating budget, and does the board of directors appraise his performance under the budget?

F. Does the manager train understudies who can take his place in case of absence or incapacity to hold his position?

## **Are Our Operating Policies Sound?**

**A**S a member of a co-op you have an important voice in establishing operating policies. Your directors

are guided by the wishes of the membership, and your manager is guided by the instruction of your directors.

You will not care to join a cooperative which has not adopted sound operating policies.

Operating policies are the policies which are followed in carrying on your co-op business. They include the method of advancing funds upon the delivery of your product; its assembling, processing, merchandising, and handling; the collecting of accounts and making final returns; and the accounting of your business. They also include protection against risks, such as fire, tornado, theft, and dishonesty.

If the association makes an advance upon delivery of the commodity, it is well to find out if the advance is too high or if it is conservative. Many associations failed because they made their advances too high, and received less for the commodity than the original advance, plus costs, reserves and retains.

If too high advances are being made, the member should question whether he should remain a member of the association. Some commodities are not handled on a consignment or a pooling basis, but outright purchases of the commodity are made, as in the case of grain cooperatives. In the case of such purchases, which are usually hedged, a conservative margin between the cost and selling price should be maintained by the association in order to be sure that losses will not be incurred, and to be sure that after the commodity is sold sufficient savings will remain to take care of costs, reserves, and retains.

If the association is a farm supply cooperative, then it should not be a price-cutter in its field. It should sell its supplies for sufficient margin not only to cover the cost but to provide

for (a) the expense of selling, (b) all other costs of the association, (c) an amount sufficient for patronage refunds at the end of the year, (d) increases in reserves, and (e) adequate contingency reserves.

### **Conservative Policy Is Best**

The operating policy of an association in respect to what it pays the producer when he delivers his crop, or what it charges him for his supplies, is a vital one. It reflects either a conservative or a speculative attitude on the part of the membership, directors, and manager. The speculative policy is the one to avoid. The conservative policy is the one to adhere to.

Some of the other tests for satisfactory operating policies might be these:

A. Are the operations of the association timed so that the producer receives his returns in a reasonable time after he has delivered his product?

B. Do the accounting practices of the association permit accurate reports as to its status and its progress?

C. One of the distinct advantages of belonging to a cooperative is the protection to producers for their products that are in the hands of the association against various hazards of fire, flood, tornado, and other insurable hazards. Are the policies of your association conservative in regard to insurance?

D. Does the association adequately protect its funds, and hence the members' funds, by semiannual or annual audits by independent accountants? Are auditors' reports made directly to the board of directors, and is the scope of the audit prescribed by the board?

E. Does the association maintain a system of adequate internal control in order to guarantee against dishonesty?



*No matter what commodity your co-op handles—feed, seed, cotton, butter or beans—the means of measuring its efficiency of operations are essentially the same.*

esty, and has this system of internal control been commented upon and approved by the independent auditors?

F. Are adequate fidelity and faithful performance bonds required covering all officers and employees who

handle cash and other assets of the association? Has this bond coverage been commented upon and thoroughly explained to the board of directors by legal counsel and the independent auditors of the association?

## Is the Financial Condition Satisfactory?

AS a co-op member, you should review the financial condition of your co-op from time to time. If you are a prospective member, you should consider the financial condition of the organization you intend to join.

Every member should have enough of an investment in the organization to feel a definite responsibility and loyalty to it. A co-op means little to you unless it is serving your business needs—and your business needs are usually best served by the organization which you are helping to finance.

A simple way to analyze the financial condition of an association is to list the items which the association owns, just

as you would list the items on your farm which you own. Then list the items which the association owes. The difference between what it owns and what it owes indicates the members' equity or ownership.

This ownership should be large enough not only to assure the members that they can market or purchase through the association with safety, but also to assure that the association has sufficient ownership on the part of the producers to borrow enough money for its long-term and short-term financing needs.

The items which the association owns are termed its assets and, in a

very broad sense, are considered its capital. These are the cash, accounts and notes receivable, inventories, facilities, and other assets required in its business. The assets used in the seasonal or short-term operations of the business are called current assets, and the items such as land, buildings, machinery, and automobiles used over a long period of time are called its fixed assets.

Its current assets must be sufficient to permit it to receive the commodities, market them, receive the money back, and make final returns to the producers. It is frequently necessary to supplement the cash and other current assets of the association with borrowings. When this is necessary, the ownership of the association held by the producers and the amount of its own current assets must be sufficient to justify lenders in making a loan for current operating purposes.

Furthermore, it may be necessary to provide for the acquisition and ownership of the land, buildings, machinery, or fixed assets of the association. Money is frequently borrowed to acquire these fixed assets, but the members should have a definite ownership through their cooperative in the assets.

### **Testing the Financial Condition**

The following questions are suggested in order to test the financial condition of your association:

A. Do the members have a definite

financial stake in the association? They should have a substantial investment.

B. Does the association have a systematic financial program for building membership capital either by direct investment in shares of stock or other equities or through revolving fund retains based upon the volume of business done by each producer with the association?

C. If the association is using the revolving capital method of financing, does its plan provide for a continuance of the retain after capital needs have been met, thereby insuring the association funds with which to retire its oldest outstanding capital year after year?

D. Does the association use borrowed money? Wise use of credit is to be commended. For what purposes is money borrowed? To finance inventory; to make advances to members on farm products delivered to the association; to provide funds for construction of facilities or the purchase of new equipment?

E. Is the association able to liquidate all of its current borrowings once a year? If it is able to do so, it may be assumed that it has enough owned current assets.

F. Is the money borrowed on buildings, land, machinery and equipment greater than 60 percent of its balance sheet book value? If the loan is greater than 60 percent the association should acquire a greater equity in these assets.

## **Is Our Co-op's Volume of Business Adequate?**

IN several of the other circulars in this "You and Your Co-op" series of the Farmer Cooperative Service, it has been pointed out that the coopera-

tive member must contribute two essentials to his marketing and purchasing organizations—capital and patronage.

# BALANCE SHEET (Statement of Condition)

## ASSETS (What We Own or What We Have Due Us)

|   |                  |
|---|------------------|
| CASH  | \$000,000        |
| RECEIVABLES (Money owed us for commodities sold but for which we have not yet been paid)  | 000,000          |
| INVENTORY (Commodities on hand ready for sale or in the process of preparation and manufacture)                                 | 000,000          |
| FIXED ASSETS (Land, buildings, machinery, trucks and equipment used in the business)  | 000,000          |
| INVESTMENTS IN OTHER COOPERATIVES (Regionals, federations, banks for cooperatives and other associations)                       | 000,000          |
| OTHER ASSETS (Investments in government bonds, stocks and other items owned)  | 000,000          |
| DEFERRED CHARGES (Prepaid rent, unexpired insurance, and other similar expenses applicable to operations of subsequent periods) | 000,000          |
| <b>TOTAL ASSETS (Total of what we own and what is due us)</b>   | <b>\$000,000</b> |

**THIS IS  
WHAT  
WE  
OWN**

## LIABILITIES (What We Owe Others)

|  |                  |
|--|------------------|
| ACCOUNTS PAYABLE (Due members or others for commodities, supplies, or services furnished us) | \$000,000        |
| NOTES PAYABLE (Amounts owing to banks and others for money borrowed)                         | 000,000          |
| ACCRUALS (Taxes, interest, payrolls, etc., which have accrued but have not been paid by us)  | 000,000          |
| FIXED LIABILITIES (Mortgages and other long-term debts incurred by us)                       | 000,000          |
| <b>TOTAL LIABILITIES (Total amount we owe)</b>   | <b>\$000,000</b> |

**THIS IS  
WHAT  
WE  
OWE**

## CAPITAL EQUITIES (What We Have Invested in Our Association (Equal to Difference Between What We Owe and What We Own))

### Represented by:

|  |                  |
|--|------------------|
| COMMON AND PREFERRED STOCK (Par value of certificates of stock issued to us representing our investment in the capital of the association)                       | \$000,000        |
| INVESTMENT CERTIFICATES (Face value of certificates held by us, representing our contributions to the capital of the association)                                | 000,000          |
| BOOK CREDITS (Patronage savings and margins credited to us on the books of the association and for which we have received notification from the association)     | 000,000          |
| ALLOCATED RESERVES (Amounts set up out of savings and margins or deductions from us for which we have received notification from the association)                | 000,000          |
| UNALLOCATED RESERVES (Amounts held as association capital for which no notice has been given to us by the association)   | 000,000          |
| UNDISTRIBUTED SAVINGS AND MARGINS (Current savings and margins which are available for distribution to patrons, payment of dividends, transfer to reserves etc.) | 000,000          |
| <b>TOTAL LIABILITIES AND CAPITAL EQUITIES</b>  | <b>\$000,000</b> |

**THIS IS  
OUR  
EQUITY  
IN THE  
CO-OP**

*A balance sheet is easy to read, once its terms are understood.*

Patronage means volume of business, and volume of business is the life blood of any successful commercial enterprise. Has your co-op or prospective co-op the volume of business that will make it possible for you to save in marketing and purchasing?

Sufficient volume is necessary if the association is to render maximum service at the lowest possible cost. It is essential, also, in order to maintain a strong bargaining position. The management must have the right quality and quantity of commodities at the right time and place in order to do

the most efficient operating job. Certain tests can be made in this regard:

A. Does the association handle sufficient units from its members to reduce the overhead costs of operation to a minimum?

B. Does the association receive units of a quality which permits it to handle the commodities at a low cost?

C. Are the commodities received at a time which permits their sale and handling with economical costs in processing, storing, insuring, and financing?

D. Are the units available for sale at advantageous handling places?

## **Can Our Co-op Meet Competition?**

**Y**OUR co-op, as has been previously emphasized, must have definite margins upon which to operate. Whether or not these margins are available depends to a large extent on the competitive situation which exists.

Even if satisfactory margins do not exist, however, your co-op is not necessarily helpless. Competition often may be met by changes in operating policies—and it must be met if the association is to justify its existence.

In the handling of some commodities, such as cotton, there are margins in a number of different operations. For instance, there is a definite margin in ginning cotton, in handling cotton seed, in transportation, warehousing, and merchandising. Some authorities are of the opinion that in order for a cooperative to successfully compete over a long period of time it is essential for it to obtain the margins available in each step; namely, in ginning, handling cotton seed, transporting, warehousing, and selling.

A farmer may be able to sell his cotton to the trade at a high price, but a cooperative dependent only on the margins of one or two of the handling operations might not be able to pay a similar price. On the other hand, the charges paid to a cotton ginner by the producer may permit the ginner a very comfortable margin over the cost of ginning, especially if volume is satisfactory.

Similar situations hold true in practically all commodities, and unless adequate margins are available it may not be wise to start a cooperative or to continue an existing one. This does not mean that present competition may not be met through new methods of processing and packaging, improving quality, or other changes in operations. In fact, farmers have at times found it necessary to go into co-operative marketing to find adequate outlets when other agencies have failed to make changes which producers have felt necessary for proper merchandising. Present competition, however,

may be met by changes in processing, packaging, quality standards, and marketing practices.

The following tests may be applied:

A. Is the margin between the cost and the gross sales price sufficient to pay both direct and indirect costs and leave an amount of net savings which might be available for retains, reserves, and patronage refunds?

B. Can improvements be made in merchandising practices which will tend to increase the outlets for the commodities and result in a higher net price to the producer?

### **Causes of Failure Listed**

It might be well to add a few observations in regard to the matter of business success or failure. After analyzing the usual economic causes for failure, there must always stand out the fact that a business fails because a manager does not possess the necessary intuitive skill, foresight, initiative, perseverance, and intellectual power to compel its success. Therefore, it is worth while to again stress the necessity of finding out if the membership and board of directors have selected a good manager.

Broadly speaking, fundamental causes of failure, except for catastrophes such as war, drought, and the like, may be listed as excessive competition, unprofitable expansion, a change in the public demand for the commodity, and the distribution of capital to member-patrons when sav-



*An important factor in efficient co-op operations is capable office personnel.*

ings have not been actually realized.

The membership, board of directors, and manager must be continually on the alert to sense changes in the above four phases of their operations, because when conservative business policies which would guard against the above contingencies are not formulated, even the most intelligent business management cannot avoid failure.

A cooperative enterprise is either a success or a failure. A cooperative may maintain for a considerable time a quiet existence, showing no outward change. In the long run, however, an observer will see clearly that it has gone either forward or backward. Many of the unsuccessful cooperatives go downhill very rapidly and become failures within a few months after their organization. Others, in which the cause of failure operates more slowly, may exist for several years before their fate becomes apparent.

### **Are Future Successful Operations Likely?**

ONE of the good questions to ask yourself in sizing up your co-op is "What of the future?" While the

past is not an infallible guide, it usually indicates the trends that may be expected to continue. Some of the

general trends are described in the "You and Your Co-op" series pamphlets covering the several commodities.

These general trends affect your own co-op. But in addition to the general "lay of the land" there must be considered the special circumstances and conditions that affect your own community activities.

In the case of setting up a cooperative, it is important to know whether a cooperative enterprise of a similar nature has ever been tried in the community. If it has been tried, it is important to know why it has not continued.

In considering a cooperative which has been operating for a number of years, two general approaches seem essential. First, what is the attitude of the present membership toward the cooperative? Second, what are the results of the business administration of the cooperative?

In regard to the reactions of the present members, the following tests should prove helpful:

A. Does each member have a definite financial stake in the cooperative?

B. Do the members take an active interest in voting for directors and in other important matters presented at membership meetings?

C. Do the members show a definite loyalty for the cooperative?

D. Do the members patronize, or deliver their commodity to, the cooperative?

E. To what extent do they meet their farm supply needs through the cooperative?

F. Do the members wish the co-op to have a sound financial structure and recognize their responsibilities

to contribute the necessary capital?

G. Are the members well informed on the operations of the cooperative?

## **Eight Tests To Gauge Results**

The following tests are suggested for appraising the results of the business administration of the cooperative:

A. Has producer-ownership in the co-op tended to increase steadily?

B. After operating for a number of years, does the cooperative have a good standing with banks and other credit agencies, as well as with people from whom it buys and sells?

C. Does the association have adequate reserves for the protection of assets, provisions for liabilities, provisions for contingencies, and net worth reserves in order to provide a cushion of protection against the possible impairment of certificates of interest or other like documents issued to producers?

D. Has the volume handled by the association tended to increase or decrease? Does the association have sound outlets for the products it markets and dependable sources of supply for those it purchases?

E. Does the association management, through merchandising or selling operations, tend to keep up with the times and realize its responsibility as a pacemaker?

F. Does the association operate on a budget, planning in advance as far as it is practicable to do so its expenditures for current operations and further expansion.

## **Success Not Always Apparent**

The first few years of a successful cooperative are devoted to organization and to establishing a place in the

trade. Pronounced success is not likely to show itself as quickly as pronounced failure. In the long run, however, success is just as evident as failure, although the consequences may not be so dramatic.

It is, therefore, essential to frequently size up and appraise the operations of your cooperative. The pe-

culiar hazards of the business should be thoroughly understood, and a program for dealing with them formulated on a sound basis. Periodic review of the preceding nine suggested tests should be helpful in maintaining a successful cooperative enterprise, and in assisting you to decide if you should become or remain a member.

## **You and Your Co-op Series**

**O**THER circulars in this series are available from the Farmer Cooperative Service, U. S. Department of Agriculture, Washington 25, D. C. The series includes:

The Story of Farmer Cooperatives, FCS Educational Circular 1.

Using Your Wool Co-op, FCS Educational Circular 2.

Guide for Teaching Farmer Cooperation, FCS Educational Circular 3.

Using Your Livestock Co-op, FCS Educational Circular 4.

Financing Farmer Cooperatives, FCS Educational Circular 5.

Using Your Farm Supply Co-op, FCS Educational Circular 6.

Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7.

Using Your Co-op Elevator, FCS Educational Circular 8.

Using Your Poultry and Egg Co-op, FCS Educational Circular 9.

Forming Farmer Cooperatives, FCS Educational Circular 10.

Using Your Co-op Gin, Circular E-9.

Insuring Through Your Farmers' Mutual, Circular E-15.

Managing Farmers' Cooperatives, Circular E-21.

Merchandising by Farmers' Cooperatives, Circular E-22.

Three Principles of Agricultural Cooperation, Circular E-24.

Using a Local Cooperative as Source Material for Teaching, Circular E-25.

Farmer Cooperatives in Our Community, Circular E-32.

Future Farmers and Cooperatives, Circular E-33.

*A copy of these publications may be obtained upon request while a supply is available from the*

**Information Division**

**FARMER COOPERATIVE SERVICE**

**U. S. DEPARTMENT OF AGRICULTURE**

**WASHINGTON 25, D. C.**